

# Thai economy contracts, exacerbating political tensions

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Efforts by Thai Prime Minister Abhisit Vejjajiva to stabilise his shaky coalition government are being undermined by the country's deteriorating economy. Abhisit, who was installed in power last December with the backing of the military, state bureaucracy and monarchy, imposed a state of emergency last month and deployed heavily-armed troops in Bangkok to suppress anti-government protests.

Speaking at Money Expo 2009 in Bangkok this month, Abhisit repeated what has now become a familiar litany for political leaders around the world. He saw positive economic signs and a likely global recovery in 2010, adding that the fundamentals of the Thai economy were sound and that the country's woes were due to external factors.

All the signs, however, indicate that the major economies are mired in severe recession, despite huge stimulus packages. China and India—the two largest emerging economies—are continuing to slow. Whatever the immediate ups and downs, the Thai economy remains heavily dependent on exports for more than 60 percent of gross domestic product (GDP) and has been hit badly by slowing demand in the US, Europe, Japan and China.

The latest data released by the National Economic and Social Development Board (NESDB) this week showed that the economy was formally in recession after two consecutive quarters of contraction. The GDP in the first quarter of 2009 fell by 1.9 percent compared to the final quarter of 2008 and by 7.1 percent compared to the first quarter of 2008. The revised figures for the last quarter of 2008 showed negative growth of 6.1 percent compared to the previous three months.

Overall, the Thai economy grew by 2.6 percent last year, down from 4.9 percent in 2007, but the forecasts for 2009 are for the first decline since the 1997-98 Asian financial crisis. The NESDB revised its estimates for the year from a contraction of between 0 and 1 percent to negative growth of between 2.5 and 3.5 percent.

Exports have fallen for six months through April, the longest contraction in seven years. Manufacturing declined by 14.9 percent in the first quarter, following a 6.7 percent drop in the previous three months. Private consumption fell by 2.6 percent and total investment by 15.8 percent in the first quarter.

The lack of adequate statistics makes it difficult to gauge the social impact of the recession. Official unemployment rose from 1.3 percent in the last quarter in 2008 to 2.1 percent in the first quarter of 2009. These figures almost certainly understate the extent of joblessness and do not count the large numbers of underemployed.

Many factory workers depend on overtime payments to make ends meet. Once overtime is cut they cannot afford to live in urban areas. Food prices rose by 16.6 percent in 2008. If workers quit their jobs they do not qualify for retrenchment payment and often return to their rural villages and towns.

The impact of the downturn has been particularly sharp in the auto sector. In December, car exports fell 42.1 percent year-on-year. Thailand is a key low-wage production platform base for foreign automakers, including Toyota, Honda and Mitsubishi. In January the Automotive Industry Club predicted auto production would be cut from 1,400,000 units to 1,100,000 units in 2009.

The Federation of Thai Industries has predicted that car exports would fall in 2009 by 25 per cent or 592,000 units. At least 20,000 workers would lose their jobs, but the figure could be far higher in the industry, which employs 400,000 workers. In February, Mitsubishi announced it would cut production at its Thai plants by 50 percent and immediately laid off 1,100 temporary workers.

An Agence France Presse (AFP) report in February interviewed a number of workers who had lost their jobs in the car components sector. One worker explained that he had been among 5,000 retrenched at an air conditioning manufacturer in the auto production centre of Rayong. He had been earning \$US268 a month at the Valeo plant and was in debt for a

motorcycle he needed for transport.

Another sacked worker from the same factory was trying to pay off a small Toyota truck and indicated that he would be forced to return home to the impoverished rural north east of Thailand. Union officials told AFP that 80 percent workers in Rayong came from rural areas in the north and the north east.

In announcing the latest statistics this week, NESDB secretary general Ampon Kittiampon suggested that the economy had bottomed in the first quarter, but only “if there are no further negative political developments in the rest of 2009”. Last month, Prime Minister Abhisit declared a state of emergency and ordered troops onto the streets of Bangkok, provoking pitched battles with anti-government protesters loyal to former premier Thaksin Shinawatra.

The political turmoil hit the tourist industry. Doris Gerecht, general manager at Bangkok’s Montien Hotel, told *Bloomberg.com* that occupancy was averaging just 50 percent this year. “Business was really bad after the riots. We’re starting to see a bit of a pickup in corporate bookings, but things are still far from good.”

NESDB secretary general Ampon warned that the economy could contract more steeply than predicted if the second phase of the government’s stimulus package was not implemented in October because of political instability. The stimulus measures include a supplementary budget of \$US3 billion for income support to low-income earners and the elderly and \$45 billion for infrastructure projects and education.

The economic slowdown is both being compounded by Thailand’s protracted political crisis and helping to fuel it. Thaksin, a right-wing populist, who won office in 2001 and was ousted in a military coup in 2006, is bitterly opposed by the country’s traditional elites—the monarchy, the army and the state bureaucracy—that helped install Abhisit last December.

Both factions of the ruling elite have been vying for the levers of power as a means of defending their own economic interests at the expense of their rivals. Following the street fighting in Bangkok last month, the two sides have reined in their supporters, fearing that social unrest could spiral out of control.

However, Abhisit’s attempts at compromise through the establishment of a Committee for Reconciliation and Political Reform have made no progress. His Democrat Party has flatly rejected calls by opposition leaders to replace the current constitution, drawn up by the 2006 coup leaders, with the previous 1997 document.

The Democrats have also rejected an opposition proposal to

delete Article 237, which empowers the courts to dissolve a political party and ban its officials from political activity if any member of a party executive is convicted of electoral fraud. The provision was used to remove the pro-Thaksin government of prime minister Somchai Wongsawat in 2008 and ban his People Power Party (PPP).

The Abhisit government rests on an unstable coalition, which consists of the Democrat Party and former Thaksin allies who were pressured to join the government by the military. A comment in the *Nation* on May 6 paints the picture of a government under siege and questions whether it will last until August or October. It reports that a former PPP faction led by Newin Chidchob is plotting within the coalition against Abhisit.

More fundamentally, the government consists of factions that have no agreement on economic policy. The Democrats were bitterly resented for their implementation of the IMF’s austerity measures during the 1997-98 Asian financial crisis, which had a devastating impact on weaker sections of Thai business as well as broad layers of working people. Thaksin capitalised on this resentment to win office in 2001, but increasingly bowed to the same international pressures to open Thailand up to foreign investment.

While in power, the military junta, with the backing of the monarchy, advocated policies aimed at protecting Thai businesses. Its attempts to control the inflow of foreign capital provoked two major crises on the Thai stock market and had to be partially reversed.

The Peoples Alliance for Democracy (PAD), which mounted sustained anti-Thaksin protests in 2006 and 2008, reflects the interests of layers of business and the Bangkok middle classes seeking economic protection. PAD, which has flatly opposed Abhisit’s attempts at a compromise with the pro-Thaksin Puea Thai, has announced that it will form its own political party.

As the economic crisis and social discontent deepens, these political fissures in the ruling elite are certain to widen and lead to new political upheavals.



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